1998 ANNUAL REPORT

Ventus
ENERGY LTD.

Capturing Opportunities

ANNUAL MEETING

The Annual General Meeting of shareholders will be held on Tuesday, June 1, 1999 at 3:30 p.m. in the Cardium Room of the Petroleum Club, 319 - 5 Avenue, S.W., Calgary AB. All shareholders and interested parties are encouraged to attend.

HIGHLIGHTS

	Seven months ended December 31, 1998	Year ended May 31, 1998
Daily oil production (bbls/d)	613	620
Average oil price ($/bbl)	14.39	11.97
Gross production revenue ($)	1,889,549	2,708,815
Cash flow from operations ($)	315,639	1,069,015
Per share ($) - basic	0.05	0.23
- fully diluted	0.05	0.23
Net loss ($)	306,580	5,609,285
Per share ($) - basic	0.05	1.18
- fully diluted	0.05	1.18
Common shares		
Total outstanding	12,709,076	4,775,688
Weighted average	6,151,458	4,744,898
Capital expenditures ($)	29,136,972	5,719,903
Bank debt ($)	0	250,000
Working capital deficiency ($)	4,456,887	472,475
Total debt ($)	4,456,887	722,475

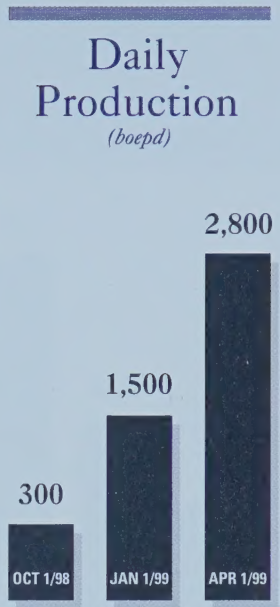
Back Row *(left to right)*: Raymond Chan, Jim Artindale, Brian Ness, Hal Metcalfe
Middle Row *(left to right)*: Jim Broughton, Grace Stickland, Kevin Bennett, John Brussa
Foreground *(left to right)*: Ed Chwyl, Scott Ratushny, James Campbell
Missing: Bruce Chernoff

Report to the Shareholders

THE THEME LINE OF OUR 1998 ANNUAL REPORT, CAPTURING OPPORTUNITIES, REFLECTS THE AGGRESSIVE LAUNCH OF VENTUS ENERGY LTD. AS A JUNIOR OIL AND GAS COMPANY. We enjoyed a terrific start, both operationally and financially, and saw production soar to 1,500 boe per day at year-end 1998. Also in the past six months we assembled a management team, developed a business plan and added financial capability that will make us one of the growth leaders in our industry. The markets have endorsed these initiatives, and our share price has doubled since September 1998 when we began restructuring the Company.

Capturing opportunities means using the talents of our engineering, geological and financial team to acquire highly prospective properties, conducting an appropriate exploration and development program and reinvesting the resulting cash flow in further opportunities. Ventus has all the prerequisites to take advantage of an industry environment that is ripe with opportunities.

In every successful company, strong management leads strong people and the new Ventus management team has experience that is second to none in the industry. We have combined key personnel in corporate development, engineering, land, and finance, all of whom worked together to build a tremendous success story at Tarragon Oil and Gas Limited. At the same time, we added an operational strength to complement our existing exploration expertise. As your Chairman and President, we can tell you with great confidence that management looks forward to leading this very talented team in implementing our corporate strategy.



As shareholders of the Company, all Ventus employees are strongly motivated to succeed. Each employee owns Ventus shares directly and each participates in the Company's stock option plan. As well, each individual will continue to work at a salary that is below market until the Company's general and administrative costs drop below $1.00 per boe of production. The Ventus staff is a very dedicated and capable group who will reap the benefit of growth in concert with every shareholder.

While we were creating Ventus's strategic direction, natural gas was a hot commodity. Consequently management opted to pursue high quality oil opportunities rather than compete with the rest of the industry for natural gas properties. We felt these oil opportunities could generate positive earnings even at US$12.00 WTI. When crude oil prices rebound to their historic trading level, we plan to acquire natural gas properties with the increased cash flow that crude production will generate.

At the same time, we plan to utilize the collective strength of our management team, which is acquiring and optimizing underexploited assets. Ventus' exploration effort will be concentrated on complementing this process, rather than on generating grassroots prospects, an approach that carries a much lower risk in building corporate assets and requires a much shorter production time cycle. This approach also coincides with the current phase of the industry cycle in which considerable inventory has become available for purchases and corporate acquisitions.

The best insurance against a lingering low price environment is low cost of production. At Ventus we expect to generate cash flow of about $7.00 per barrel of blended production in 1999 if the price of WTI oil averages US$12.00 per barrel. This requires that field operating costs be reduced below $6.00 per barrel, general and administrative costs are less than $1.00 per barrel and that new production is light sweet crude with a small quality differential. Our success to date in adding new high quality oil production while reducing operating costs on acquired properties confirms that this profitability level is, indeed, attainable. Should WTI prices improve to US$15.00 per barrel, our crude oil inventory will be as profitable as natural gas at $2.50 per mcf.

Production per million shares

(boepd)

Over time, the quality of a company's assets will reflect the quality of its people. The quality of Ventus' assets has been greatly enhanced over the past six months. In September 1998 we were producing 300 bbls per day of heavy oil. Today, production has soared to nearly 3,000 boe per day, of which only 10 percent is heavy oil. Although our common shares have increased to 13 million from five million, production per share has more than tripled! Combined with a stronger balance sheet, where year-end 1999 debt to cash flow is projected below 1.0, the overall growth potential for the Company has been greatly enhanced.

Ventus' management is very confident that it can profitably grow the Company with consistent, year-over-year growth. Our longer term objective is to build Ventus into an intermediate-sized company that is recognized as a market leader. We believe that we can achieve this by annually doubling our production and asset base over the next five years. Current market conditions and our tremendous success over the past six months would suggest that this objective is, indeed, achievable.

ACKNOWLEDGEMENTS

The success of the past six months was due in large measure to the dedication and competence of our management and employees who are now well on their way to making 1999 a banner year. We also acknowledge the advice and support of our Board of Directors and the loyalty of our shareholders.

On behalf of the Board of Directors,

Ed Chwyl
Chairman and Chief Executive Officer
April 12, 1999

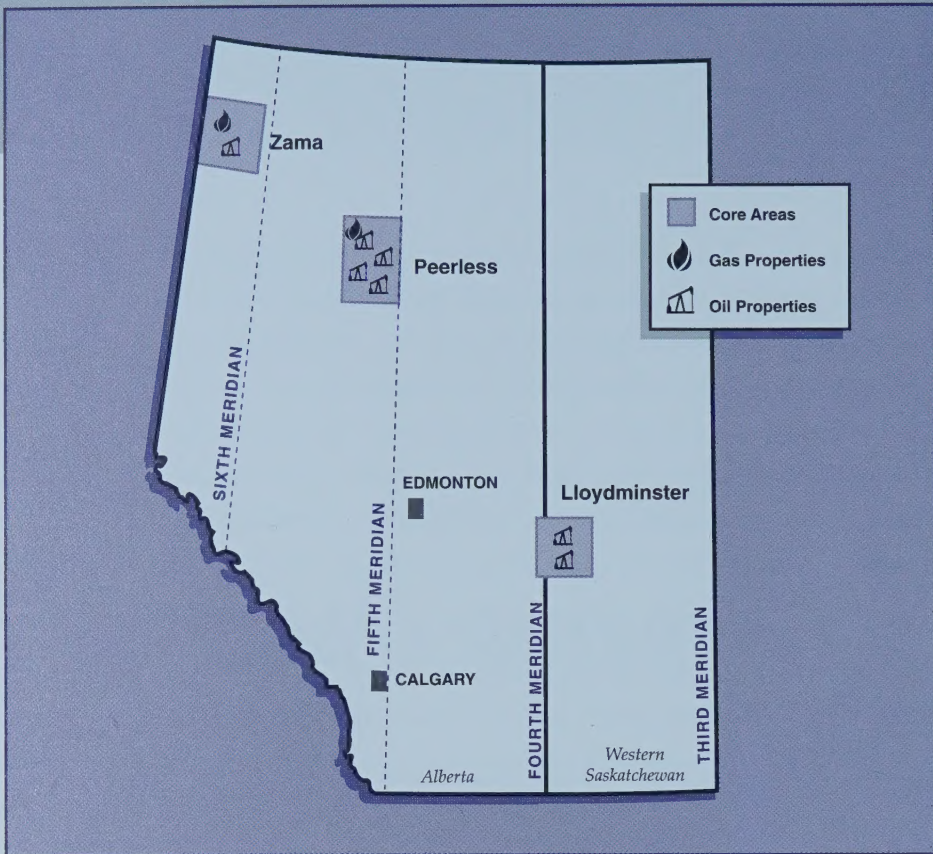
Kevin Bennett

Kevin A. Bennett
President and Chief Operating Officer

Corporate Operating Review

THE NEW MANAGEMENT TEAM WAS SUCCESSFUL IN ADDING THROUGH ACQUISITION, TWO NEW FOCUS AREAS FOR THE COMPANY DURING THE LATTER PART OF 1998. Both areas were the initial step toward executing the new management's strategic plan. The Peerless Lake acquisition was completed in October at a cost of $8.6 million. It gave Ventus 500 bbls per day of high quality, light oil production with substantial exploitation potential, 42,400 net acres of undeveloped land and a large seismic data base consisting of 1,200 kilometres of two-dimensional data and 25 separate three-dimensional surveys.

Ventus was also successful in its takeover bid of Scarlet Exploration Inc. The acquisition was completed with a share exchange offering of eight Scarlet shares for one Ventus share and closed on December 31, 1998. It added production of approximately 700 bbls of oil per day, mainly from one property in the Zama/Sousa area of Northwest Alberta. Zama/Sousa, like the Peerless Lake area, provides high quality, light oil production with substantial exploitation potential.



These two acquisitions increased Ventus production to approximately 1,500 bbls per day at year end, compared to 300 bbls per day in October. During the first quarter of 1999, Ventus further increased production to approximately 2,800 boe per day, by executing a highly successful $10 million capital program at Peerless Lake and Zama/Sousa. Production increases from the program were added at a cost of $8,000 per boe per day, significantly better than industry average. The program consisted of exploration and development drilling, recompletions and workovers, high volume lift installations and some minor acquisitions. Continued production optimization during the second quarter should boost production to 3,000 boe per day, resulting in 1999 average production of 2,600 boe per day. Based on an oil price of US$15 WTI for the remainder of the year, this production will generate annual cash flow of $10 million or $.80 per share, resulting in a year-end debt-to-cash flow ratio of 0.6 years. In addition the Company has the capacity to spend an additional $10 million during the last nine months of the year on continued development and new opportunities.

PEERLESS LAKE AREA

The Peerless Lake core area consists of four main properties at House Creek, Panny, Trout and Kidney. Oil production in the area is primarily light, sweet high-quality oil from the Keg River Devonian carbonates

at depths of 1,200 to 1,500 meters. The mix of exploitation and optimization opportunities in existing pools and the recent discovery of a new play fairway with pools of two to four million barrels of recoverable oil make this area very attractive even in a low oil price environment. In addition, there is significant shallow gas production in this area from the Bluesky zone at a depth of approximately 350 meters. Although Ventus currently has no gas production in this area, our undeveloped land is well situated and will be evaluated for gas next winter.

During the first quarter of 1999, $8.4 million was invested in this area, resulting in production gains of approximately 1,100 bbls per day. This increased the Company's production from the area to about 1,600 bbls per day versus 500 bbls per day when the property was acquired last fall.

HOUSE CREEK

Ventus owns a 50 percent working interest in a significant Keg River pool discovered in 1997 and is currently in the early stages of engineering and development. This pool has an estimated original-oil-in-place of 13 mmstb and typical recovery factors for Keg River reservoirs of this quality are 30 percent or greater. An analogous offsetting pool discovered in 1994 has produced 1.8 mmstb to date, with forecast ultimate recovery of 3.6 mmstb. Peak production from this pool reached 2,000 bbls per day and currently produces 1,200 bbls per day. During the first quarter of 1999, Ventus participated in three re-entry horizontal wells as the first stage of pool development, resulting in production of 400 (200 net) bbls per day. Pool development will continue over the next several winters.

In addition, Ventus has a 100 percent working interest in five sections of land at House Creek, with an identified exploratory opportunity modeled after the other major pools in the area. We may be able to access this prospect during the summer; otherwise this feature will be tested as part of next winter's drilling program.

PANNY

Ventus has varying working interests in 67,500 acres in this area, in addition to working interests in various producing Keg River oil pools. This winter's program focused on acreage with working interests of 50 to 100 percent, with the drilling of three step-out wells at a 50 percent working interest. The three step-out wells were successful, adding production of 400 (200 net) bbls per day. One additional well was deepened by 10 meters, but encountered a bald Precambrian high. These production additions increased our net production from Panny to 350 bbls per day compared to 150 bbls per day at the time of acquisition.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T96
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PANNY
HOUSE CREEK
KIDNEY
NOVA MAINLINE
TROUT
WELL LEGEND
Location
Oil
Oil Pipeline
Gas
Dry & Abandoned
Gas Pipeline
NOVA Mainline
6 miles

KIDNEY

Ventus has various working interests in 29,000 acres in this area, with its main assets on 66.7 to 100 percent operated acreage. During the winter, Ventus drilled two wells and performed several workovers. The first development well, at 100 percent, resulted in a pool extension with additional follow-up to be evaluated next winter. The second exploration well tested a new Keg River structure identified with three-dimensional seismic. The well produced Keg River oil on test, but additional evaluation will be required next winter to fully determine the economic viability of developing this new pool. As a result of the winter program, net production increased to approximately 320 bbls per day from 110 bbls per day at the time of the acquisition.

TROUT

Ventus has interests in three producing Keg River oil pools with significant reserve recovery upside. At the time of acquisition, Ventus had working interests in the three pools ranging from 48.5 to 66.7 percent. Successful acquisition of three minor working interests increased the Company's working interests to 100 percent in one pool and 85 percent in the other two. In addition to these acquisitions, this winter's program consisted of several workovers, production optimization, construction of a new oil battery at one of the pools and the drilling of one development well. The program increased net production to 730 bbls per day from 170 bbls per day at the time of acquisition.

In addition, Ventus has a 100 percent working interest in a second development well to be drilled this summer.

ZAMA/SOUSA

The Zama/Sousa properties consist of light, high-quality crude oil in the Keg River carbonates. The properties have more than 30 mmstb of original-oil-in-place of which only three mmstb or 10 percent has been recovered to date. Typical recovery factors for Keg River pools of this quality are 30 percent or greater. Ventus plans to continue developing this property with horizontal wells over the next several winters.

In order to realize the full productive capability of this property, a facility debottlenecking program was undertaken last winter in combination with several high volume lift installations. In addition, one horizontal re-entry well was successfully drilled. We are currently optimizing production and expect to reach 800 bbls per day net over the next several months.

An uphole recompletion of a marginal Keg River oil well resulted in a Sulfur Point zone gas producer. Ventus working interest in this well is 90 percent and the well produces at a sales gas rate of two mmcf per day with 50 bbls per day of condensate net to Ventus. Production at Zama/Sousa will exceed 1,000 bbls per day equivalent during the second quarter 1999, compared to 650 bbls per day at the time of acquisition.

RESERVES

Ventus's oil and gas reserves were evaluated by NRG Engineering Ltd., Sproule and Associates, and KAH Consulting Ltd. with effective dates of June 1,1998, April 1,1998 and September 1,1998 respectively. These reports have been consolidated and internally adjusted for production to an effective date of December 31,1998.

Petroleum and Natural Gas Reserves (Escalated Pricing)

December 31, 1998	Crude Oil and Condensate (Mbbls) Gross	Net	Natural Gas (Mmcf) Gross	Net	Total (Boe) Gross	Net
Proved Producing	2,445	2,121	471	363	2,492	2,157
Proved Non-Producing	2,394	1,930	5,147	3,272	2,909	2,257
Total Proved Reserves	4,839	4,051	5,618	3,635	5,401	4,414
Probable Reserves	1,228	1,022	887	750	1,317	1,097
Total Proved and Probable Reserves	6,067	5,073	6,505	4,385	6,718	5,511

Net Present Value Before Income Taxes

December 31, 1998 (Thousands of dollars)	0%	Discounted at the rate of 10%	15%	20%
Proved Producing	30,178	22,592	20,132	18,192
Proved Non-Producing	27,282	17,571	14,538	12,210
Total Proved Reserves	57,460	40,163	34,670	30,402
Probable Reserves	13,467	7,526	6,072	5,061
Total Proved and Probable Reserves	70,927	47,689	40,742	35,463

Reserve Life Index

December 31, 1998	Jan 1, 1999 Production (boepd)	Reserve Life Index (years) Total Proved	P+P
Oil	1,500	8.8	11.1
Natural Gas	0	0	0
Total	1,500	9.9	12.3

LAND

Undeveloped land holdings increased by 583 percent to 68,861 net acres at year-end 1998. This substantial increase is a result of lands acquired in conjunction with the Peerless Lake and Scarlet Exploration acquisitions. Aside from the two major acquisitions, land expenditures totaled $93,000 for the year.

Land Holdings

(acres)	December 31, 1998 Gross	Net	W.I.%	May 31, 1998 Gross	Net	W.I.%
Developed	39,485	14,165	36%	3,280	1,648	50%
Undeveloped	157,863	68,861	44%	26,387	10,081	38%
Total	197,348	83,026	42%	29,667	11,729	40%

Management's Discussion and Analysis

WITH A NEW CORPORATE IDENTITY, A NEW BOARD OF DIRECTORS AND A NEW MANAGEMENT TEAM ESTABLISHED IN THE LAST QUARTER OF 1998, VENTUS HAS A SOLID FOUNDATION FROM WHICH TO CAPTURE OPPORTUNITIES. Over the past five months, the Company completed two major acquisitions and three equity financings. The Company also undertook some administrative changes to better position itself for rapid growth. This included negotiating a new credit facility, consolidating the common shares on a one-for-four basis, and changing the fiscal year end to December 31 from May 31. The current period reported in this annual report is for the seven months ended December 31, 1998 and the comparative period is the year ended May 31, 1998. Additionally, the reported operating results do not include those of Scarlet Exploration Inc., as this acquisition was completed effective December 31, 1998.

Production and Netbacks

	Period ended December 31, 1998			Year ended
	Peerless	*Silverdale*	*Total*	May 31, 1998
	(4 mths.)	*(7 mths.)*	*(7 mths. avg.)*	*Silverdale*
Production (Bbls/day)				
Conventional Oil	453	0	258	0
Heavy Oil	0	355	355	620
Total Oil	453	355	613	620
Prices ($/Bbl)				
Conventional Oil	$ 17.98	$ 0.00	$ 17.98	$ 0.00
Heavy Oil	$ 0.00	$ 11.78	$ 11.78	$ 11.97
Average	$ 17.98	$ 11.78	$ 14.39	$ 11.97
Costs ($/Bbl)				
Royalties	1.97	0.97	1.39	1.06
Operating	10.16	5.15	7.31	4.65
G&A Expense	0.00	0.00	2.34	1.79
Interest Expensed	0.00	0.00	0.77	0.06
Interest Income	0.00	0.00	(0.24)	(0.30)
Taxes	0.00	0.00	0.41	0.00
Netback ($/Bbl)	$ 5.85	$ 5.66	$ 2.41	$ 4.71

PRODUCTION REVENUE

Total revenue for the current period was $1.9 million for seven months versus $2.7 million for the previous 12 month period, due to the different duration of the periods. Production volumes were essentially unchanged at 613 bbls per day for the current period compared to 620 bbls per day for the previous period. Average oil prices increased by 20 percent to $14.39 per bbl from $11.97 per bbl in the prior period as a direct result of a change in the Company's product mix. The current period production includes higher quality light oil from the Peerless Lake area where premium prices were received commencing September 1, 1998. In the previous period, production was all heavy oil from the Silverdale area.

ROYALTIES

Total royalties as a percentage of revenue increased modestly to nine percent in the current period versus eight percent for the year ended May 31, 1998. Crown royalties accounted for seven percent and six percent of total royalties, for each respective period. This increase is due to wells in the Silverdale area no longer being subject to Crown royalty holidays.

OPERATING EXPENSES

Operating expenses were $7.31 per bbl for the current period compared to $4.65 per bbl for the prior period. Operating costs at Silverdale grew from $4.65 per bbl for the year ended May 31, 1998 to $5.15 per bbl for the seven months ended December 31, 1998 as a result of production decline from wells that were shut in because of low oil prices. Operating costs at Peerless Lake averaged $10.15 per bbl over the four-month period since September 1, 1998. However, as part of the acquisition, Ventus recognized the potential to reduce costs substantially at Peerless Lake and is confident that operating costs will be reduced through operational improvement and adding new production volumes.

GENERAL AND ADMINISTRATIVE EXPENSES

Overhead costs per barrel increased in the current period to $2.34 versus $1.79 for the year ended May 31,1998 due primarily to the management restructuring. The Company expects general and administrative expenses to average less than $1.00 per bbl in 1999. Salary increases for senior management are directly dependent on reductions in general and administrative expenses on a per barrel basis.

INTEREST EXPENSE

Interest expense for the current period grew to $.77 per bbl versus $.06 per bbl for the prior year as a result of debt that was incurred to partially finance the acquisition of Peerless Lake. Bank debt was eliminated at December 31, 1998 with the proceeds received from the special warrant financing completed in conjunction with the acquisition of Scarlet Exploration Inc.

The Company's cost of borrowing in 1998 was prime plus three-quarters of a percent. Under a new credit facility negotiated in early 1999, the interest rate is reduced to prime plus one-eighth percent. Ventus can further reduce the effective borrowing costs by utilizing other money market instruments such as bankers acceptance.

DEPLETION, DEPRECIATION AND AMORTIZATION

The depletion, depreciation and amortization (DD&A) rate for the seven months ended December 31, 1998 was $4.42 per bbl versus $8.74 per bbl in the prior period. This reduction was largely due to the write-down recorded in the previous period. Under the ceiling test applied by the Company for the year ended May 31, 1998 a write-down of $4.7 million was taken against the book value of the property and equipment. This reduced the DD&A rate carried forward to future periods. Reserves acquired through the Peerless Lake transaction also reduced the Company's DD&A rate slightly.

INCOME TAXES

The Company incurred losses for the periods ended December 31, 1998 and May 31, 1998, therefore no income tax provisions were required in either period. Current taxes consist of Large Corporation Tax and Saskatchewan Capital Tax. No current taxes were recorded in the prior period because the Company's total capitalization fell within the exemption limit.

At December 31, 1998 the Company had estimated tax pools of $51 million, which will be sufficient to defer the payment of current income taxes for several years, based on existing production levels.

Tax Pool

($ thousands)	*Amount*
CCA	10,059
CEE	7,184
CDE	10,190
COGPE	21,489
Non-Capital losses	879
Share issue costs	1,073
	50,874

CASH FLOW AND NET INCOME

Cash flow netbacks for the current and prior periods were $2.41 per bbl and $4.71 per bbl, respectively. Netbacks for the current period were affected by higher per unit costs for operating, overhead and bank interest.

A loss of $2.33 per bbl was recorded for the seven months ended December 31, 1998, compared to a loss of $4.03 per bbl, prior to the write-down, for the year ended May 31, 1998. The higher loss per barrel in the prior period was largely due to a higher DD&A rate.

CAPITAL EXPENDITURES

Approximately 95 percent of the Company's current period capital program of $29.1 million was used to acquire Scarlet Exploration Inc. and the Peerless Lake properties. By comparison, almost all of the expenditures in the previous period ($5.7 million) were used to develop the Silverdale property.

The Company's capital budget for the first quarter of 1999 was approximately $10 million which was used primarily for development and minor acquisitions. The capital budget for the remainder of 1999 will depend on commodity prices and new opportunities, but is expected to be between $5 million and $10 million.

Capital Expenditures

($thousands)	7 months ended Dec. 31/98	Year ended May 31/98
Drilling & Completions	512	3,378
Equipment & Facilities	0	1,793
Land	93	0
Geological & Geophysical	83	154
Acquisitions, net of Dispositions	28,231	349
Other	218	46
Total Capital Expenditures	29,137	5,720

LIQUIDITY AND RISK

Investment in the oil and gas business has a multitude of risk, including fluctuating commodity prices, exploration risk, access to capital, environmental liability, changing regulations, pipeline access, currency exchange rates and interest rates.

In 1998, falling oil prices became a key factor for many companies. Ventus is particularly affected by declining oil prices because approximately 90 percent of its current production is oil. The Company is committed to maintaining a sound financial position and employs conservative pricing assumptions in its operating forecasts.

Ventus also reduces its risk against volatile commodity prices by periodically hedging a portion of its production at prices that will ensure the proper funding of capital programs. The Company currently has 500 bbls per day of oil hedged for calendar 1999 under a collar structure, with a floor price of US$15.00 per bbl and a ceiling price of US$18.00 per bbl for WTI crude.

The Company has a credit facility with a Canadian chartered bank that, together with cash flow, provides ample capacity to finance its currently defined 1999 capital program. The Company's main strategy is to acquire and exploit, with exploration focused in core areas to complement the acquisition thrust. Ventus believes this strategy reduces the investment risk for its shareholders.

YEAR 2000

Ventus is currently developing a plan to manage its exposure concerning the Year 2000 compliance issue. To date, consultants have been retained to identify, analyze and rectify any potential problems by the fall of 1999. We currently expect our direct costs will not exceed $20,000 and these costs will be capitalized and amortized on a straight-line basis over five years, consistent with the accounting policy for other office equipment expenditures.

Net Asset Value

($ thousands)	*Amount*
Reserves (15% BIT)	
Total proved (15% BIT)	$ 34,670
50% Probable (15% BIT)	3,036
Total Reserve value	$ 37,706
Undeveloped land	4,360
Seismic	4,412
Tax pools (@ 10%)	4,800
Processing revenue	2,000
Total Assets	$ 53,278
Liabilities	
Long term debt	0
Working Capital	(4,457)
Total Liabilities	$ (4,457)
Net Asset Value per share	$ 48,821
Outstanding shares	
Basic	12,709
Options	701
Fully diluted	13,410
NAV per share	
Basic	$ 3.84
Fully diluted	$ 3.64

To the Shareholders of Ventus Energy Ltd.
(formerly Gopher Oil & Gas Company Ltd.):

Auditors' Report

We have audited the consolidated balance sheet of *Ventus Energy Ltd. (formerly Gopher Oil & Gas Company Ltd.)* as at December 31, 1998 and the consolidated statements of operations and deficit and changes in financial position for the seven month period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and the results of its operations and the changes in its financial position for the seven month period then ended in accordance with generally accepted accounting principles.

The financial statements as at May 31, 1998 and the year then ended were reported upon by another firm of auditors who expressed an unqualified opinion.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
February 22, 1999

CONSOLIDATED BALANCE SHEETS

($)	December 31, 1998	May 31, 1998
Assets		
Current		
Cash	**269,160**	–
Accounts receivable	**2,098,632**	180,798
	2,367,792	180,798
Property and equipment (Note 3)	**31,833,146**	3,628,963
	34,200,938	3,809,761
Liabilities		
Current		
Accounts payable and accrued liabilities	**6,824,679**	653,273
Long-term debt (Note 4)	**–**	250,000
Future removal and site restoration (Note 3)	**518,066**	76,834
Deferred income taxes	**2,288,000**	–
	9,630,745	980,107
Shareholders' Equity		
Share capital (Note 5)	**24,729,638**	8,549,726
Deficit	**(159,445)**	(5,720,072)
	24,570,193	2,829,654
	34,200,938	3,809,761

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

($)	December 31, 1998 (7 months)	May 31, 1998 (12 months)
Revenue		
Oil and gas, net of royalties	**1,706,665**	2,469,662
Interest	**31,644**	68,811
	1,738,309	2,538,473
Expenses		
Production	**959,148**	1,051,501
General and administrative	**307,693**	405,422
Interest	**101,461**	12,535
Depletion, depreciation and amortization	**622,219**	1,978,300
Write-down of property and equipment (Note 3)	**–**	4,700,000
	1,990,521	8,147,758
Loss before taxes	**(252,212)**	(5,609,285)
Current taxes (Note 6)	**54,368**	–
Net loss	**(306,580)**	(5,609,285)
Deficit, beginning of period	**(5,720,072)**	(110,787)
Application of deficit against share capital (Note 5)	**5,867,207**	–
Deficit, end of period	**(159,445)**	(5,720,072)
Loss per share		
Basic	**(0.05)**	(1.18)
Fully diluted	**(0.05)**	(1.18)
Weighted average number of common shares outstanding		
Basic	**6,151,458**	4,744,898
Fully diluted	**6,852,208**	5,111,148

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

($)	December 31, 1998 (7 months)	May 31, 1998 (12 months)
Net Inflow (Outflow) of cash related to the following activities		
Operating		
Net loss	**(306,580)**	(5,609,285)
Items not affecting cash		
Depletion, depreciation and amortization	**622,219**	1,978,300
Write-down of property and equipment (Note 3)	**–**	4,700,000
Cash flow from operations	**315,639**	1,069,015
Changes in non-cash operating working capital items	**5,005,374**	(2,746,686)
	5,321,013	(1,677,671)
Financing		
Common shares issued on acquisition of Scarlet (Notes 2 and 5)	**19,162,124**	–
Common shares issued for cash, net of costs (Note 5)	**5,172,995**	–
Increase (decrease) in long-term debt	**(250,000)**	250,000
Broker's warrants exercised, net of costs	**–**	400,377
	24,085,119	650,377
Investing		
Property and equipment expenditures	**(905,482)**	(6,019,903)
Acquisition of Scarlet (Note 2)	**(19,584,011)**	–
Acquisition of Peerless Lake property (Note 2)	**(8,647,479)**	–
Disposition of property and equipment	**–**	300,000
	(29,136,972)	(5,719,903)
Net cash Inflow (Outflow)	**269,160**	(6,747,197)
Cash position, beginning of period	**–**	6,747,197
Cash position, end of period	**269,160**	–
Cash flow from operations per share		
Basic	**0.05**	0.23
Fully diluted	**0.05**	0.23
Weighted average number of common shares outstanding		
Basic	**6,151,458**	4,744,898
Fully diluted	**6,852,208**	5,111,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998 and May 31, 1998

1. SIGNIFICANT ACCOUNTING POLICIES

Ventus Energy Ltd. ("the Company") amended its articles on December 30, 1998 and changed its name from Gopher Oil & Gas Company Ltd. The Company's financial year end was also changed from May 31 to December 31.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Scarlet Exploration Ltd. ("Scarlet") (acquired effective December 31, 1998).

Full cost accounting

The Company follows the full cost method of accounting for its petroleum and natural gas properties. All costs related to the acquisition of, exploration for and development of petroleum and natural gas properties are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, together with overhead directly related to exploration and development activities. Proceeds from disposals are recorded as a reduction of the related expenditures, except when such disposals would result in a greater than 20% change in the depletion and depreciation rate, in which case a gain or loss would be recorded.

Depletion and depreciation of the petroleum and natural gas properties and production equipment are computed using the unit-of-production method based on the estimated proven reserves of oil and gas. For purposes of the calculation, natural gas reserves are converted to equivalent barrels of oil based on relative energy content. Costs related to unproved properties are excluded from the calculation and are assessed separately for impairment.

The Company applies a ceiling test to capitalized costs to ensure that such costs, net of salvage values, do not exceed the undiscounted value of estimated future net revenue from proven reserves, less estimated future administrative, financing, site restoration and income tax expenses, plus the lower of cost or estimated market value of unproved properties.

Office furniture and equipment is depreciated on a straight-line basis at the rate of 20% per annum.

Joint venture accounting

A portion of the Company's exploration, development and production activities are conducted jointly with others. Only the Company's proportionate interest in such activities are reflected in these financial statements.

Future removal and site restoration

Estimated future site restoration and removal costs are provided for using the unit-of-production method based on estimated proven reserves. The annual charge is accounted for as an expense and the accumulated provision is reflected as a long term liability. Actual site restoration costs are deducted from the accumulated provision in the year incurred.

Flow-through shares

The value of share capital recorded on the issue of flow-through shares is reduced by the effective tax rate applied to the expenditures renounced. The reduction is credited initially to a deferred tax provision and then as a reduction in the carrying value of oil and gas properties as the funds are expended.

Hedging transactions

The Company periodically uses certain financial instruments to hedge its exposure to price fluctuations on a portion of its crude oil and natural gas production. Gain and losses on these transactions are reported as adjustments to revenue when the related production is sold.

Basis of presentation

Certain of the prior year figures have been reclassified to conform to the current year's presentation.

2. ACQUISITIONS

Acquisition of Scarlet

Effective December 31, 1998, the Company acquired all of the issued and outstanding shares of Scarlet, a public company involved in the exploration, development and production of oil and gas in Western Canada. The shares were acquired at a ratio of 8 common shares of Scarlet for 1 common share of the Company.

The acquisition has been accounted for by the purchase method of accounting as follows:

	$
Consideration given:	
Issue of 4,790,531 common shares at $4.00 per share	19,162,124
Transaction costs	421,887
	19,584,011
Allocation of purchase price:	
Property and equipment	19,231,150
Working capital	751,802
Provision for future removal and site restoration	(398,941)
	19,584,011

Acquisition of Peerless Lake Property
Effective September 1, 1998, the Company acquired property and equipment, including the related production, in the Peerless Lake area of Alberta for cash of $8,647,479.

3. PROPERTY AND EQUIPMENT

		December 31, 1998	
($)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	32,448,766	7,820,003	24,628,763
Production equipment	8,065,375	922,910	7,142,465
Office equipment	98,819	36,901	61,918
	40,612,960	8,779,814	31,833,146

		May 31, 1998	
($)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	8,756,696	7,457,996	1,298,700
Production equipment	2,985,335	716,191	2,269,144
Office equipment	86,818	25,699	61,119
	11,828,849	8,199,886	3,628,963

The Company determined no write-down was required under the application of a ceiling test at December 31, 1998 using year end pricing. At May 31, 1998, the Company recognized a write-down of property and equipment in the amount of $4,700,000 using the average sales price for the year of $11.90 per barrel of oil. If the ceiling test calculation had utilized the May 1998 oil price of $8.92 per barrel, an additional $2,500,000 write-down would have been required.

At December 31, 1998, $2,111,744 (May 31, 1998 – nil) of costs relating to unproved properties were excluded from costs subject to depletion.

The Company capitalized $154,813 of general and administrative expenses during the seven months ended December 31, 1998 ($ nil for the year ended May 31, 1998).

A provision of $42,291 was recorded for future removal and site restoration for the seven months ended December 31, 1998 ($76,834 for the year ended May 31, 1998) and is included in depletion, depreciation and amortization expense.

4. LONG-TERM DEBT

The Company has a revolving loan available from a chartered bank with a borrowing base of $10,000,000 which bears interest at the bank prime rate plus 0.125%. The loan is secured by a charge covering all of the assets of the Company. At May 31, 1998, the Company had drawn down $250,000 under a secured revolving demand loan facility with a capacity of $2,000,000 bearing interest at prime rate plus 0.75%.

5. SHARE CAPITAL

Authorized
The Company is authorized to issue an unlimited number of common shares.

Issued
At the annual and special meeting held on December 30, 1998, the shareholders approved the consolidation of the issued and outstanding common shares on a one-for-four basis. Accordingly, any reference to the historical number of common shares has been adjusted to reflect this consolidation. The shareholders also approved the application of the deficit of $5,867,207 at November 30, 1998 against issued share capital at that date.

	Number of	Amount $
Balance at May 31, 1997	4,674,438	8,149,349
Issued on exercise of broker's warrant	101,250	405,000
Issue costs for special warrants	–	(4,623)
Balance, May 31, 1998	4,775,688	8,549,726
Issued pursuant to private placements of flow-through shares	3,142,857	5,200,000
Tax effect of flow-through shares	–	(2,288,000)
Issue costs	–	(27,005)
Issued on acquisition of Scarlet (Note 2)	4,790,531	19,162,124
Deficit at November 30, 1998 applied against share capital	–	(5,867,207)
Balance, December 31, 1998	12,709,076	24,729,638

In September, 1998, 3,000,000 flow-through common shares were issued at a price of $1.60 per share for aggregate proceeds of $4,800,000 ($2,688,000 net of the related income tax benefits renounced to shareholders). In November, 1998, 142,857 flow-through common shares were issued at a price of $2.80 per share for aggregate proceeds of $400,000 ($224,000 net of the related income tax benefits renounced to shareholders). At December 31, 1998, no amounts had yet been expended under these flow-through arrangements. The Company is committed to make qualifying expenditures totalling $3,320,000 before December 31, 1999, and the remaining $1,880,000 before December 31, 2000.

On June 25, 1997, 1,250,000 common shares were issued on exercise of the special warrants issued on February 26, 1997.

In September, 1997, 101,250 common shares were issued at $4.00 per share pursuant to the broker's warrant. All other warrants expired without exercise on February 26, 1998.

Stock options
The following stock options were outstanding at December 31, 1998:

Shares	Price	Expiry Date
32,000	$3.00	December 23, 2001
172,500	$2.80	October 21, 2003
31,250	$3.08	October 29, 2003
425,000	$2.12	October 5, 2003
40,000	$3.12	December 11, 2003
700,750		

No stock options were exercised during the seven months ended December 31, 1998 or the year ended May 31, 1998.

6. INCOME TAXES

The Company incurred losses for the periods ended December 31, 1998 and May 31, 1998, accordingly, no current income tax provision is required. At December 31, 1998, the deferred tax liability relates to the tax effect of issuing flow-through shares (see Note 5). Current taxes represents capital taxes of $54,368.

7. FINANCIAL INSTRUMENTS

The Company has 500 barrels of oil per day hedged for calendar 1999 under a collar structure with a floor price of US $15.00 per barrel and a ceiling price of US $18.00 per barrel.

8. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

9. CONTINGENCIES

The Company and its wholly-owned subsidiary, Scarlet, are party to various outstanding claims arising from the normal course of business. In management's opinion, none of the claims, either individually or in total, are expected to have a material impact on the Company's operations or financial position.

CORPORATE INFORMATION

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Kevin A. Bennett

John A. Brussa

Raymond T. Chan

M. Bruce Chernoff

M. Scott Ratushny

OFFICERS

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Hal A.J. Metcalfe, Vice President, Finance & Administration

James S. Artindale, Vice President, Business Development

James M. Broughton, Vice President, Engineering

James A. Campbell, Vice President, Exploration

Grace D. Stickland, Vice President, Land

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